



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mountain National Bank
Charter Number 23084**

**543 East Stuart Drive
Galax, Virginia 24333**

**Office of the Comptroller of the Currency
3800 Electric Road, Suite 204
Roanoke, Virginia 24018**

NOTE: *This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.*

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Mountain National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 27, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Mountain National Bank has a satisfactory record of meeting the credit needs of its community, including the needs of low- and moderate-income individuals. This assessment is based on an adequate level of loan originations, a high level of lending within the bank's assessment area, a reasonable level of lending to borrowers of different incomes and businesses of different sizes and an appropriate distribution of lending among the geographies within the assessment area.

The following table indicates the performance level of **Mountain National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Mountain National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the last examination.		

DESCRIPTION OF THE INSTITUTION

Mountain National Bank is a \$145 million institution located in Galax, Virginia. Mountain National Bank operates three office locations in Galax and Hillsville, Virginia. Mountain National Bank was formed on July 2, 1996, as the result of a spin-off of the three offices of Patrick Henry National Bank located in Bassett, Virginia.

To help meet the credit needs of its community, Mountain National Bank offers a variety of banking products and services including agricultural, small business, residential, consumer, and commercial loans. The loan portfolio is distributed, by percentage, as follows: commercial real estate 60%; residential real estate 23%; commercial loans 9%; and consumer loans 8%. The bank further facilitates credit availability in its community through an associated entity, *The Mortgage Company of Virginia*. This company can accommodate a broad range of long term mortgage products, including a variety of government sponsored programs. Through this company, the bank has provided its community with the opportunity to obtain long term conventional fixed- and adjustable-rate mortgages.

There are no financial or legal impediments restricting the lending activities of the bank. However, the age of the bank should be considered when evaluating the bank's lending throughout its assessment area .

DESCRIPTION OF THE ASSESSMENT AREA

Mountain National Bank's assessment area is the City of Galax, Carroll County and Grayson County, Virginia. The assessment area is comprised of 12 block numbering areas (BNAs), of which one is moderate income, nine are middle income and two are not populated; no block numbering areas are designated as low or upper income. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies.

The assessment area has a total population of 49,542. The 1997 Median Family Income for the non-metropolitan areas of Virginia is \$34,800. The area's economy is stable and is composed of several industrial companies including Vaughn Furniture Company, Bassett-Walker, Inc., Sara Lee Knitting Products, Webb Furniture Enterprises, and Nautilus. The City of Galax serves as the employment and commercial hub of the assessment area.

We contacted various local organizations to obtain information regarding economic conditions, perceived credit needs, and how local financial institutions are meeting those needs. Perceived needs are for affordable housing and home improvement loans for low income individuals and small business funding.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio:

The loan to deposit ratio is reasonable when compared to other banks in the assessment area. The loan to deposit ratio has averaged 61% since the bank opened in July, 1996. This ratio is in line with the peer average of 67% for the same time period. The peer group is comprised of two similarly situated community banks in Mountain National Bank's assessment area. In addition, the bank has facilitated residential mortgage originations in its community through its associated entity, *The Mortgage Company of Virginia*. Through this avenue, 27 additional residential mortgage loans totalling \$1.6 million were originated throughout the bank's community during 1997. Offering access to these long term, fixed rate mortgage products demonstrates a willingness to meet established credit needs of the community.

Lending in the Assessment Area:

The vast majority of the bank's lending activities are within the bank's assessment area. Based on residential real estate and other consumer purpose lending patterns, virtually all of the loans originated in 1997 were to borrowers residing within the bank's assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes:

Mountain National Bank has a reasonable distribution of loans among borrowers of different incomes and businesses of different sizes, including low- and moderate-income individuals. An analysis of the number of residential mortgage loans originated during 1997 reveals that 21% of these loans were originated to low-income borrowers and 29% were originated to moderate-income borrowers. This penetration is reasonable, given that low- and moderate-income families comprise 25% and 21% of the assessment area, respectively.

1997 Consumer and Real Estate Lending by Income Level			
Income Level	Consumer and Real Estate Loans		% of Families in the Assessment Area
	#	%	
Low	11	21%	25%
Moderate	15	29%	21%
Middle	12	23%	27%
Upper	14	27%	27%
Total	52	100%	100%

A review of commercial lending activities from May through November, 1997, indicates a reasonable distribution of lending by loan size. During this time period, the bank originated 276, or \$3.4 million, commercial purpose loans, for an average loan of \$12,000. A sample of these loans indicated that approximately 43% were to businesses with less than \$1 million in annual revenues.

Geographic Distribution of Loans:

Mountain National Bank has a reasonable penetration of credit extensions throughout its assessment area. An analysis of the bank's consumer loans which originated during 1997 indicates lending patterns that are comparable to the demographics of the assessment area. Our sample indicated that 30% of the bank's consumer loans were made to borrowers residing in the only moderate-income BNA in the assessment area. Approximately 15% of the assessment area's total families live in this BNA.

Review of Complaints:

The bank has received no CRA related complaints.

Compliance with Anti-Discrimination Laws:

No violations of the substantive provisions of the anti-discrimination laws and regulations were noted.